



City of Portland
General Fund Forecast UPDATE
FY 2017-18 through FY 2021-22
City Budget Office
February 2017

This update to the December five-year financial forecast incorporates new information on inflation, business license and transient lodging revenue, and other minor aspects of the forecast. Though local economic conditions are strong, certain aspects of the national and global economies are beginning to show signs of weakness. In the near term, the City financial picture continues to be strong, as it appears tax year 2016 will be another record year for business license tax revenues. Overall, forecast changes were relatively minor resulting in slightly less ongoing cuts needed to balance the five-year forecast. CBO now projects that **the City will need to cut \$1.8 million in ongoing expenses** in the FY 2017-18 budget. However, there will also be **\$17.1 million in one-time resources available**. A final budget forecast will be released in late April and significant forecast changes remain a possibility, particularly in light of the uncertainty surrounding federal economic policy.

MAJOR CHANGES SINCE DECEMBER 2016 FORECAST

Inflation – Local inflation remains low by historical standards. However, the rate for the FY 2017-18 cost-of-living allowance (COLA) will be slightly higher than projected. The CPI-W for Portland rose 2.2% from the second half of 2015 to the second half of 2016, which was 0.2% higher than was forecasted in December. The higher-than-expected COLA will increase ongoing expenses by about \$525,000 beginning in FY 2017-18.

Lodging/Business License Tax Receipts – The City's two revenue streams most sensitive to economic conditions continue to boom. Lodging taxes have increased nearly 10% per year over the last decade, even including the Great Recession. Modest increases in these forecast both reduced needed cuts and added one-time revenue to the forecast.

UPDATED FORECAST

Ongoing Cuts: **-\$1.8 million**

New One-Time: **\$17.1 million**

Major Changes Since December:

- Actual FY 2017-18 COLA slightly higher than expected, increasing ongoing expenses by \$525,000
- Strong economic growth continues to push forecasts for lodging taxes and business license taxes higher

MAJOR RISKS

- Potential new federal financial regulations may make collection of the City's CEO surtax impossible. The forecast currently includes a phased-in collection period ultimately rising to \$2.5 million in FY 2019-20.
- The current geopolitical environment is causing significant uncertainty, which may yield economic consequences. The local economy is particularly exposed to trade disruptions, especially those with Pacific Rim countries.

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